

**Report 99.51**  
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Report to the Policy and Finance Committee  
from Stuart Macaskill, Chairman

## **Long-Term Financial Strategy 1997-2007:1999 Update and Supporting Operating Plans**

### **1. Purpose**

To background the key elements of the Long-Term Financial Strategy *Facing the Future 1997-2007:1999 Update* (which also incorporates Council's 1999/2000 Annual Plan) in order to provide Councillors with an overview prior to the Committee reviews of Operating Plans.

### **2. Background**

As Councillors are aware we have a strategic planning cycle which includes a full review of priorities each three years, with updates by exception in the intervening years as follows:

Councillors' review of priorities (Operation Emerald #1)	Year 1	1997/98 financial year (Full review to establish 3 years' 'hard' numbers)
	Year 2	1998/99 financial year (update of remaining 2 years' 'hard' numbers)
	Year 3	1999/00 financial year (update of remaining 1 year 'hard' numbers)

Clearly the Council needs to be ready to adjust priorities within the three years (established by the Operation Emerald process) but only if there are significant changes in circumstances. Otherwise the major review of priorities should occur during the next Emerald process, as it is only each three years that a realistic assessment can be made of the real trends we are achieving against our key outcomes.

In the next few months the Council will be asked to input into both the 1999/00 Annual Plan (i.e. the process of Committee reviews which starts with the Policy and Finance Committee meeting on 18 February 1999) and into the establishment of Council's next 10 year financial strategy (which will once again set three years' 'hard' numbers, covering the years 2000/01, 2001/02, 2002/03).

To some extent the timing of the two processes might overlap so the comments above need to be borne in mind over the coming months.

For the purposes of the 1999/00 Annual Plan (which of course will also be the last update of *Facing the Future 1997-2007*) you are not being asked to review priorities from a zero base. Officers have undertaken some 'rejigging' of figures as a result of recent events (e.g. the October 1998 floods) and to reflect better information in other areas. You are being asked through the process of Committee reviews to confirm that the path set down 3 years ago remains relevant, given some of the 'big ticket' issues (e.g. roading reform) which we are aware of.

Of course, after the Committee reviews we will release our proposed plan for public consultation and Councillors will hear any submissions as part of finalising the plan before 30 June 1999.

Having had the advice of officers and the views of the Committees, as elected members it will then be our responsibility to set our programme and budget for the coming year.

### **3. Key Issues Impacting the 1999/00 Year**

As you know there are many current issues which we face as we finalise our 1999/00 Annual Plan including:

#### **(1) Funding the Recent Flood Damage**

After the October 1998 floods which impacted on all the major rivers in the Region, the Council moved quickly to approve the necessary additional expenditure to repair the damage. (Report 98.604 considered by the Policy and Finance Committee on 10 December 1998). Councillors will recall that officers presented very comprehensive reports to their respective Committees, Landcare and Rural Services and Wairarapa, which indicated that the impact on Regional rates as a

result of the floods would be approximately 1.3%. The expenditure approved included flood damage costs of approximately \$3 million across the Region and a further \$3 million in unprogrammed capital works. This is a significant reinvestment in the Region's flood protection systems and clearly comes at a cost to the ratepayers.

I'm sure ratepayers impacted by the flood events will appreciate that there is a direct relationship between flood protection works and their rates bill. While the flood damage repairs were funded partially from existing maintenance budgets and from reserves which the Council has prudently set aside in the past, Regional rates and river scheme rates need to be increased to recoup the local share of the damage (in line with Council's funding policy) and to begin to rebuild the reserves.

In addition, Regional rates need to increase in order to fund the increased debt servicing costs associated with the new capital works.

Given the scale of the flood damage and the resulting new capital works I actually think an impact of the floods on Regional rates of only around 1% is extremely good value. Nevertheless there will be larger increases for individual ratepayers through increased targeted river rates in each area and there will also be increases in our River Scheme rates in the Wairarapa.

## **2. Roading Reform**

Once again our Annual Plan is being prepared in an environment of extreme uncertainty in relation to public transport. Perhaps the only real certainty we have at this time is the reforms will not affect us in the 1999/00 year. This means that we can reassess our position as part of developing the next set of three years' 'hard' numbers during the next Emerald process.

## **3. Water Integration**

The future of water integration remains largely in the hands of our four territorial customers. Again we have had to plan on a "business as usual" basis for the 1999/00 year but no doubt things will become clearer over the coming months. The key issue for us to consider as part of the 1999/00 budget will be agreeing on the appropriate level of bulk water levy.

#### **4. Changes to the Resource Management Act**

The potential impact of proposed changes to the Resource Management Act are also difficult to determine. It is sensible therefore that officers have budgeted on a “business as usual” basis for 1999/00.

#### **5. Development of Exit Strategies for Key Investments**

As Councillors are aware officers are working on developing exit strategies by 31 March 1999 for Council’s key investments in Forestry and Port Wellington. I believe it is prudent at this time that officers have not built in the proceeds of any possible sale of these assets into the 1999/00 Annual Plan as this would pre-empt the deliberation process.

#### **4. Summary**

There are clearly a lot of key issues which have the potential to significantly impact upon Council’s financial position in the future. However, many of these issues are more likely to affect financial years following 1999/00 and therefore it is appropriate that we continue to plan in this third year of ‘hard’ numbers with an update approach rather than a ‘zero based’ approach. We will all get our chance to reassess all Council’s priorities soon enough.

In terms of the overall position for 1999/00, the Chief Financial Officer’s report 99.52 indicates we are facing a modest increase in Regional rates of approximately 1.7% which is largely due to the impact of the October 1998 floods, and an overall increase in Scheme rates of 6.1%. Other rates and the Council’s bulk water supply levy are being held at last year’s level.

#### **5. Recommendation**

*That the report be received and referred to standing committees for consideration with the 1999-2007 Operating Plans ( which support the Long-Term Financial Strategy 1997-2007:1999 Update).*

STUART MACASKILL  
Chairman